Housing Authority - County of Los Angeles

June 18, 2004

TO: Each Supervisor

FROM: Carlos Jackson, Executive Director

SUBJECT: **PROPOSED CHANGES TO SECTION 8 HOUSING CHOICE VOUCHER PROGRAM**

On June 1st your Board approved the CDC/HA 2004-05 budget, and also approved a motion opposing the proposed federal budget cut of $1.9 billion nationwide from the Section 8 Housing Choice Voucher program. In the previous two months we advised your office that HUD's action would seriously affect the Section 8 program. These changes not only affect the County housing authority, but all housing authorities across the nation. Several recent newspaper articles describing the drastic cost-cutting measures being taken by the cities of Los Angeles and Long Beach document this.

In a memorandum dated May 17th, we advised you that we were working to analyze the impact of HUD's budget reduction. Their change in funding methodology will mean substantially less funding available for housing assistance payments (HAP) to landlords and for administration of the Section 8 program.

Although we are still awaiting final information from HUD, we have estimated the HAP shortfall for fiscal years 2003-04 and 2004-05 combined will be $7.5 million. In addition we anticipate a two-year reduction of $1.5 million in administrative funds. However, these amounts could significantly increase should our request for certain restoration of funding be denied by HUD. Due to the timing of the HUD notice and our fiscal year end of June 30, 2004, we have no option but to utilize the program operating reserves held by HUD to cover the deficit. For the coming fiscal year, the funding reduction will be covered by implementing program changes that will decrease the HAP and also deplete the remaining operating reserves.

In the Omnibus Bill, Congress authorized HUD to maintain a one-month program operating reserve level for housing authorities. Our average monthly HAP is $13.6 million and the current reserve level is $8.1 million. Clearly, this is well below where it should be. We have asked HUD to restore the program operating reserve to the appropriate level to ensure that there is support for future program costs. To date, there has been no response from HUD.

Recommendations

In order to reduce the projected loss of funds, we considered several major actions. Our primary concerns in implementing these changes are to minimize the impact on our Section 8 families and to avoid canceling existing vouchers and contracts. Our goal is to preserve the favorable reputation of the County program with our landlords and to assist as many families as possible. Based on our recommended actions, tenants and landlords will share the financial impact of our proposed program changes.

We examined the demographic data of our Section 8 client base to ensure that our approach is the most reasonable with the least impact. Our 20,300 vouchers provide housing subsidies to 5,000 elderly and 15,300 family households. In total we serve 56,500 very-low income individuals. Households are expected to pay at least 30% of their adjusted monthly income (AMI) for rent. But due to regulatory and statutory exemptions and deductions, 88% of the households pay less than 30% of their AMI toward rent. With these proposed changes, 81% of households will pay on average 27% of their AMI for rent.

Four years ago we embarked upon a concentrated lease-up effort. For the last 3 years, our lease-up rate has averaged 98%. We modified the method of calculating rents, so that the Section 8 program would be competitive in the rental market. Contract rents are determined by averaging the three highest comparable rents obtained for a census tract. Our proposed action will average all the comparable rents within a census tract. The effect will be a lower rent for subsidized units.

It is mandatory that we take steps to reduce our operating costs. Therefore, we recommend that beginning August 1st the following changes be implemented:

- Tenants will be required to pay more of their income toward rent. This will occur if we change the payment standard from 110% of the fair market rent (FMR) to 100% of the FMR, and it would be only applicable to tenants with contract rents higher than the FMR (100%). By reducing the payment standard, the housing authority's monthly subsidy on behalf of the tenant is decreased. The rent to the landlords remains fixed. Because tenants must receive one-year notice of this proposed change, it will take two years to fully implement.

- Contract rents in some cases will be lowered using a more conservative calculation method. In various areas of our jurisdiction, a sample of rents within eight census tracts demonstrates that we will save money by basing contract rents on the average of all comparable units within a tract, instead of on the three highest rents. For example, three-bedroom rents for these tracts average $254 higher using the current methodology. This will apply only to new contracts.

- Impose a minimum monthly rent of $50, consistent with our policy for conventional public housing. This would be an increase for the 893 families who pay our current minimum rent of $25. The minimum rent is the base from which allowable deductions are made for utilities, medical and other expenses permitted under the regulations. Consequently, some tenants pay no rent. In some cases we issue checks to reimburse them for utilities. A minimum rent of $50 establishes a higher base rent before deductions.

- Verify full-time student status by final grades. HUD requires housing authorities to exclude the employment income of family members who are 18 years of age or older, if they attend college or a vocational school. If students register but do not complete classes, families may owe money.

The copy of this memorandum provided to your deputies includes attachments with greater details about the recommendations and associated cost savings. Over the next week we will meet with them to discuss the changes and respond to questions, prior to seeking your Board's approval.

Outreach

It is important for our clients to understand that these program changes are necessary to address anticipated funding reductions. We have developed a strategy to convey this information to both the tenant and owner communities. The Resident Advisory Board (RAB) and Owners' Forum (an informal advisory body) will help us refine our strategy. We will communicate to our clients through meetings and direct mailing of letters and newsletters. Members of the Housing Commission will be requested to assist us, as well.

In anticipation of the volume of calls you may receive, we will provide your offices with a list of frequently asked questions (FAQs) and responses for your staff to use. We will be available to brief field office staff as needed.

Administrative Funding Shortfall

HUD allocates administrative funding for the Section 8 Program separately. On May 19th, HUD informed us of their intent to reduce our administrative fees back to January 1, 2004. The projected reduction in administrative funds for fiscal years 2003-04 and 2004-05 combined is a total of $1.5 million. Again to reduce expenses, it will be necessary for to adjust staffing levels, which will impact our providing services to the public.

The budget cuts from HUD are based on the most recent information available, and may change again. We will contact your deputies to arrange for a briefing in the immediate future. If you have any questions, feel free to contact me or have your staff contact Bobbette Glover at (323) 890-7400.

CJ:BG:ajm:allsups

C: Housing Commission w/Attachment
Each Deputy w/ Attachment

RECOMMENDATIONS

Reduce Payment Standard

Action: Reduce payment standard from 110% to 100% of the Fair Market Rent. This reduces the amount of housing assistance payment (HAP) or subsidy paid by the Housing Authority.

Example:

Effective 10/1/03	**0**	**1**	**2**	**3**	**4**	**5**	**6**
FMR's	$674	$807	$1,021	$1,378	$1,646	$1,892	$2,139
Payment Standards	$741	$887	$1,123	$1,515	$1,810	$2,081	$2,352

The following case studies reflect the impact on a hypothetical household with Payment Standards at, 100% and 110% of FMR.

Case Study A

Hypothetical Household with 2-bedroom Voucher
30% of Adjusted Monthly Income (AMI) = $265

	100% of FMR	**110% of FMR**
Payment Stds	$1,021	$1,123
30% AMI	$265	$265
HAP	$756*	$858

*Difference in saving of $102 monthly or $1,224 annually.

Case Study B

Hypothetical Household with 3-bedroom Voucher
30% AMI = $430

	100% of FMR	**110% of FMR**
Payment Stds	$1,378	$1,515
30% AMI	$430	$430
HAP	$938*	$1,085

*Difference in saving of $147 monthly or $1,764 annually.

Effective: Contracts and leases will be negotiated with the lower payment standard for new participants and for current participants moving to new units.

Impact on Tenants: Tenants are required to absorb the difference between the rent and the reduced subsidy amount. Currently, 88% of families pay 30% or less of their adjusted monthly income (AMI) toward rent. It is projected that at 100% of payment standard 81% of the families will pay on average 27% of their AMI toward rent.

Some tenants may not be able to absorb additional rent expense and may have to relocate to a new unit.

Impact on Owners: Owners will continue to receive same amount of rent.

Owners may lose tenants, if tenants cannot absorb additional rent.

Modify Methodology for Rent Reasonableness

Action: Establish rent by using the average of all comparable rents within a census tract. Currently, the unit rent is based on the three highest comparable rents with the tract.

Example: A sample of rents was reviewed within eight census tracts in the cities of Bellflower, Compton, Gardena, Lancaster, Los Angeles, Palmdale, Rosemead, and Whittier. The difference between the three highest average rents and the true average is listed below by bedroom size:

0-Bdrm	1-Bdrm	2-Bdrm	3-Bdrm	4-Bdrm
$7	$105	$204	$254	$27

Effective: Contracts and leases will be negotiated with the lower payment standard for new participants and for current participants moving to new units

Impact on Tenants: May be forced to relocate, if owners will not accept the new lower rents.

Voucher holders may have difficulty locating "willing" owners.

Impact on Owners: Variance within a census tract may skew rent downward.

May not accept renegotiated contract/lease with lower rents.

May not opt to participate in the program, because unable to collect sufficient rent revenue.

Increase Minimum Rents

Action: Increase minimum monthly rent paid by tenant from $25 to $50. Currently, 893 families pay less than $50 for rent. In addition 210 families pay no rent; two of them receive checks from the Housing Authority as utility reimbursements.

Effective: Upon Board of Supervisors approval of the Agency Plan, impose $50 minimum rent at the time of annual re-examination.

Impact on Tenants: $50 minimum rent may exceed 30% of family income.

Tenants may be unable to absorb rent increase.

Impact on Owners: None

Verify Student Status

Action: Require verification of full-time student status with final grades. Regardless of the amount, income earned by full-time students is excluded from total family income. School registration is submitted as proof, but student status is not verified by final grades.

Effective: Upon cancellation, contracts/leases will be modified to include this new requirement.

Impact on Tenants: Tenants will pay more rent.

May not be able to absorb additional rent.

Impact on Owners: None